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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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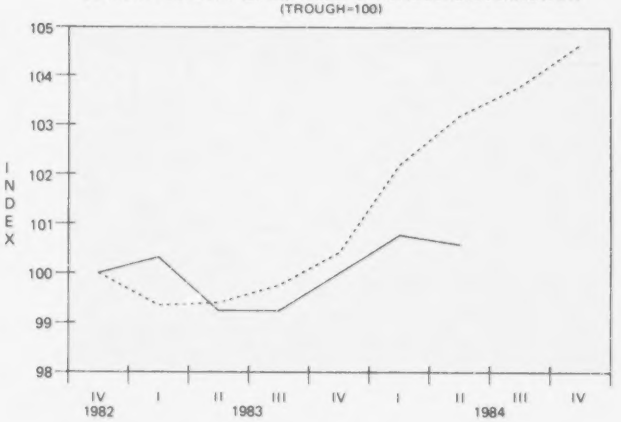
Wage Increases Remain Modest . . .

As the economy roared ahead in the first half of 1984 and businessmen quickly added to their payrolls, concerns developed as to whether or not the modest rate of wage increases stemming from the past recession could be sustained. But recent labor agreements indicate that these doubts have been misplaced. While pay concessions do not dominate organized labor's settlements the way they did a year or two ago, workers have by and large not been winning major wage hikes, either.

The recent recession seems to have weakened organized labor's muscle. Worried about the growing ranks of workers displaced by automation, deregulation of many industries, inroads by foreign producers and increased competition from non-unionized companies, unions have placed strong emphasis on the preservation of jobs at the expense of higher wages and benefits. So while settlements have traditionally reflected overall economic conditions in general, and the health of individual industries in particular, major collective bargaining contracts settled in the first half of 1984 in private industry resulted in average wage adjustments of only 2.6 percent in the first contract year, down from about four percent in the previous six months. The last time the same parties negotiated, in most cases two to three years ago, average wage increases were nearly three times as high.

Despite an eight percentage point decline in the unemployment rate of construction workers since the beginning of the recovery and the stepped-up pace of business spending on nonresidential structures, there were no wage increases on balance for most construction workers—with many forced to settle for pay cuts. This is the first time for this industry since the Bureau of Labor Statistics started keeping records in 1968. The unemployment rate for construction workers is still high—close to 14 percent. In addition, the unions no doubt realized that relatively high mortgage interest rates continue to cut into people's ability to afford a home, thus putting a lid on residential construction. High rates may soon restrain nonresidential spending as well. The unions' problems in this industry have been further exacerbated by stepped-up competition from nonunion contractors. Other unions sustaining first-year wage decreases in early 1984 were primarily airline, transportation and food stores.

NONFARM UNIT LABOR COST INDEX:
CURRENT RECOVERY (LINE), AVG. OF 6 PREVIOUS RECOVERIES (DOT)
(TROUGH=100)



. . . As Job Security Takes The Lead

Most recently, job security was the primary goal in the United Auto Workers union negotiations. The companies agreed to establish sizable funds to assist workers laid off due to automation or transfer of work to outside suppliers. Their new contract provides only a modest 2¼ percent average base wage increase in the first year and 2¼ percent lump sum payments in the second and third years. Base wage rates, used to determine such benefits as overtime and vacation pay, will not be affected by the lump sum payments.

Reflecting the weak state of the United Mine Workers, the union's bargaining power—damaged by slack demand for coal and stiff nonunion competition—the new contract accepted in September provided only a 10¼ percent wage increase over the next 40 months. Importantly, this was the first time since 1964 that they did not strike. The last agreement ratified more than three years ago provided pay increases nearly three times as large and was achieved only after a lengthy 2½ month strike.

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Strong Productivity Gains . . .

The deceleration in wage increases has not been confined only to union pay. It has occurred in the nonunion sector as well. After reaching a peak in early 1981—at nearly nine percent year-over-year—nonunion wage increases shrunk to five percent in second-quarter 1984. Thus, the overall rise in average hourly earnings (which includes union and nonunion workers) so far this year is down about two-thirds from the peak rate of advance in early 1981 and so far this year is the slowest in nearly 20 years.

When productivity gains are factored in, labor costs per unit of output has risen only six-tenths of one percent since the beginning of the current recovery. This represents about one-eighth the average rise posted in the first six quarters of those earlier post-war business expansions which lasted this long (see chart on page 1). Plainly, keeping labor costs low is crucial to keeping inflation in check, since they represent two-thirds of business operating costs.

. . . Flatten Unit Labor Costs

Labor costs are also an important determinant of the longer-term trend in the "underlying" or "core" rate of inflation. After peaking at close to ten percent in 1981—measured by the annual rate of rise

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/17/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	157.315	– 2.143	– .261
Loans to Depository Inst.	6.822	+ .665	+ 6.245
Float	1.417	+ .864	– .313
Total Reserve Bank Credit	177.849	– .437	+ 9.009
Treasury Deposits with Federal Reserve Banks	3.702	– 940	– 1.556
Currency in Circulation	177.249	+ .219	+12.180
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	115.107	– 1.802	+ 2.222
	10/17/84		
Member Bank Reserves:			
Total Reserves Held	38.120	+ .422	+ 3.699
Excess (Deficiency)	.957	+ .431	+ .228
Net Free Reserves	.512	+ .433	+ .273

		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M1 (10/8/84)	545.6	+ 1.4‡	+ 5.3‡
M2 (September '84)	2,304.7	+ 5.8	+ 7.3
M3 (September '84)	2,885.3	+ 6.9	+ 9.4
Domestic Nonfinancial Debt (2nd Q'84)	5,589.6	+ 12.9	+ 12.4

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 10/19/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.70%	8.90%	9.05%
* Federal Agencies	10.13	10.65	11.07
* Project Notes—Taxfree (46% Taxable Equivalent)	11.02	11.11	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	10.00	10.25	11.00

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	9.57%	Nov.	9.75%
15- 29 days	9.68	Dec.	9.75
30- 59 days	9.74	Jan.	9.80
60- 89 days	9.78	Feb.	9.85
90-179 days	9.80	Mar.	9.85
180-239 days	9.80	Apr.	9.85
240-270 days	9.80		

‡Industrial Paper—Prime			
30- 89 days	9.38%	†Federal Funds Effective Rate	10.00%
90-120 days	9.23		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'84n	$ 3,701	$ 3,645	$ 3,347
Gross National Product (1972 Dollars)*	3rd Q'84n	$ 1,650	$ 1,639	$ 1,550
Percent Change, Annual Rate	3rd Q'84n	2.7	7.1	6.8
Change in Consumer Prices (new series)*	Aug '84	6.0%	3.6%	4.8%
Change in Producer Prices*	Sep '84	– 2.4%	– 1.2%	1.2%
Civilian Employment (Thousands of Persons) †	Sep '84	105,239	104,969	101,876
Unemployment as % of Civilian Labor Force†	Sep '84	7.4%	7.5%	9.2%
Personal Income*	Sep '84n	$ 3,071	$ 3,045r	$ 2,785
Leading Indicators Composite Index (1967=100)†	Aug '84	164.5	163.7	158.9
Industrial Production Index (1967=100) †	Sep '84n	165.1	166.1r	153.8
Net Change in Consumer Installment Credit †	Aug '84n	$ 6.00	$ 7.11	$ 4.09
U.S. Merchandise Trade Balance †	Aug '34	–$ 9.86	–$ 14.06	–$ 7.16
Plant and Equipment Expenditures*	4th Q'84	$318.33(a)	$316.22(a)	$283.96
Private Housing Starts (Thousands of Units)*	Sep '84n	1,676	1,539r	1,679
New Construction Expenditures*	Aug '84	$ 311.7	$ 311.2	$ 278.0
Total Business Inventories †	Aug '84n	$ 556.0	$ 551.4r	$ 504.3
Total Business Sales †	Aug '84n	$ 410.7	$ 411.4r	$ 373.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

in labor and capital costs per unit of output—this core rate is now running close to five percent, year-over-year. An important contributor to this slowing has been the sharp increase in productivity. Second quarter productivity advanced four percent at a seasonally adjusted annual rate in the business sector as output rose 10.1 percent and the number of hours worked increased only 5.8 percent. This was the eighth quarter of business productivity growth in a row—the longest string of increases in more than 15 years.

But hopefully these improvements in labor efficiency are more than just a cyclical revival. It seems that many factors which hindered productivity growth in the 1970s are now working in its favor. For example, business investment is booming. The Commerce Department's latest reading of corporate capital spending plans indicates a rise of 14 percent is in store for this year, on the heels of annual declines both in 1983 and 1982. In nominal terms, this year's projected increase would be the most since 1979, while it would exceed all annual gains since 1966, when adjusted for inflation. In addition, new regulatory restraints seem to be coming on more slowly, while the baby boomers have matured and are no longer the inexperienced teenagers of the 1970s. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (10/3/84)	158,978	– 722	+15,134
New York City (10/10/84)	34,319	– 549	+ 3,388
Commercial Paper (10/10/84)	230,637	+ 2,414	+52,944

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/3/84)	246,058	+ 2,013	+29,161
New York City (10/10/84)	65,097	+ 155	+ 6,923

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/3/84)	627,194	+ 3,944	+91,486
New York City (10/10/84)	142,678	+ 1,808	+22,066

Financial Markets

	Friday 10/19/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.03%	– .27	+ 1.23
180-Day Bills†	10.70	–0–	+ 1.45
Longest Bills†	11.00	–0–	+ 1.35
Recent Issues:			
11⅝s 10/31/86 (When Issued)	11.48	NA	
13⅝s 6/30/88	12.05	–0–	
12⅝s 8/15/94	12.25	–0–	
12½s 8/15/14	11.82	– .28	
Municipals:			
Bond Buyer–20 Bond Index* (10/18/84)	10.24%	– .12	+ .96
Blue List Total ($ Million)	$1,579	– $ 52	+ $ 143
30-Day Visible Supply ($ Million)	$4,132	+ $737	+ $2,824
Total	$5,711	+ $685	+ $1,451
Corporates:			
Moody's Aa Composite (10/18/84)	13.15%	– .10	+ .69
30-Day Visible Supply ($ Million)	$ 390	– $459	– $ 710
Stocks:			
Dow-Jones Averages:			
Industrials	1,225.93	+ 35.23	– 22.95
Transportation	542.74	+ 25.34	– 47.56
Utilities	144.80	+ 4.05	+ 5.98
65 Stocks	487.34	+ 16.28	– 14.66
Standard and Poor's 500 Stocks	162.68	– 1.50	– 3.27
N.Y.S.E. Composite Index	96.86	+ 2.07	+ 1.11
N.Y.S.E. Avg. Daily Vol. for Week (000's)	121,964	+42,554	+ 30,966

* 46% Taxable equivalent 18.96%.

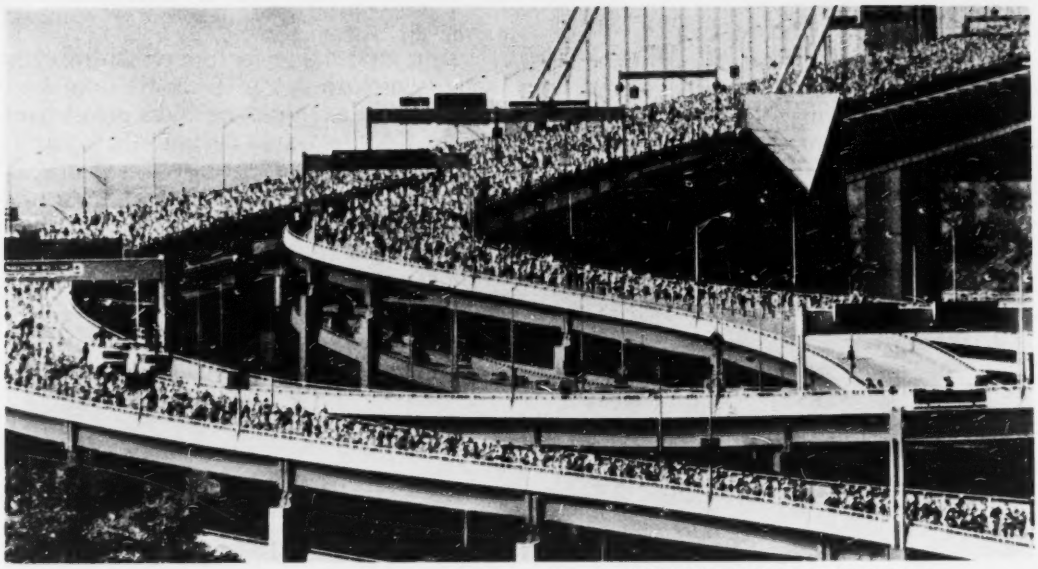
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 10/19/84	Week Ago
Overnight	9.63%	9.88%
1 month	10.00	10.56
3 month	10.31	11.06
6 month	10.56	11.31
1 year	11.13	11.69
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.25%	12.60%
Long Term (7 to 15 yrs.)	12.35	12.60

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/19/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01606	62.25
Canada	.7559	1.3229
Denmark	.08797	11.3680
France	.1058	9.4506
Germany	.3247	3.0797
Italy	.0005246	1906.20
Japan	.004034	247.91
Mexico	.004975	201.00
Netherlands	.2879	3.4736
Switzerland	.3946	2.5343
U.K.	1.1940	.8375



The New York City Marathon,"co-sponsored by Manufacturers Hanover

The marketplace demands sustained effort.

Manufacturers Hanover strives.

Winning a 26.2 mile marathon takes planning, positioning, and endurance. And in much the same way, Manufacturers Hanover's planning, positioning, and willingness to accept challenges are paying off significantly.

For example, our subsidiaries now have more offices nationwide than any other bank holding company, giving us instant access to both large and middle market companies. This enables us to provide other financial services besides banking—factoring, equipment financing, and mortgage lending.

But the race is far from over. As the need arises for new kinds of financial relationships, Manufacturers Hanover will be prepared to supply whatever the national—and international—marketplace demands. Consider the source.

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